



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

SECURITY NATIONAL LIFE INSURANCE COMPANY

of

Salt Lake City, Utah

as of

December 31, 2017



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February 20, 2019

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, a coordinated examination, as of December 31, 2017, has been made of the financial condition and business affairs of:

SECURITY NATIONAL LIFE INSURANCE COMPANY
Salt Lake City, Utah

hereinafter referred to in this report as the “Company,” and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

This full-scope examination of the Company was conducted by representatives of the Utah Insurance Department (Department), and covers the period of January 1, 2014 through December 31, 2017, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. The examination is part of a multi-state coordinated examination which Utah acts as the lead and coordinating state. Participating in the examination were insurance department representatives from Arkansas, Mississippi, and Texas.

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If,

during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The following items are significant findings and recommendations for inclusion in this report:

1. The Company did not, pursuant to the requirement of Utah Code § 31A-16-106(1)(b)(i)(B), notify the commissioner in writing of its intention to amend its Loan Funding and Fee Agreement with its affiliate, SecurityNational Mortgage Company, at least 30 days prior to entering into the transaction.

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with SecurityNational Mortgage Company, which was approved by the Department on June 22, 2018 (See Transactions and Agreements with Affiliates section).

2. The Company did not, pursuant to the requirement of § 31A-16-106(1)(b)(i)(B), notify the commissioner in writing of its intention to enter into a transaction of participation in a Loan Funding and Fee Agreement with its affiliate, American Funeral Financial, LLC, at least 30 days prior to entering into the transaction.

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with American Funeral Financial, LLC, which was approved by the Department on February 4, 2019 (See Transactions and Agreements with Affiliates section).

3. The Company did not, pursuant to the requirement of § 31A-16-106(1)(b)(i)(B), notify the commissioner in writing of its intention to amend its Services and Cost Sharing Agreement with affiliates at least 30 days prior to entering into the transaction. The primary purpose of the amendment was to include recently acquired subsidiaries and affiliates.

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with affiliates, which was approved by the Department on February 4, 2019 (See Transactions and Agreements with Affiliates section).

4. The Company did not, pursuant to the requirement of § 31A-16-106(1)(b)(iv), notify the commissioner in writing of its intention to enter into a Loan Servicing Agreement with its affiliate, SecurityNational Mortgage Company, at least 30 days prior to entering into the transaction.

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with SecurityNational Mortgage Company, which was approved by the Department on May 29, 2018 (See Transactions and Agreements with Affiliates section).

5. The Company did not, pursuant to the requirement of § 31A-16-106(1)(b)(i)(B), notify the commissioner in writing of its intention to amend its Real Estate Contracts with its affiliate, Memorial Estates, Inc., at least 30 days prior to entering into the transaction.

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with Memorial Estates, Inc. which is pending approval by the Department as of the date of this report (See Transactions and Agreements with Affiliates section).

6. In 2017, the Company did not, pursuant to the requirement of § 31A-5-305(2)(d), request approval from the commissioner for a surplus note interest payment made to Holladay Cottonwood Memorial Foundation, Inc.

During examination fieldwork, the Company submitted a request for approval to the commissioner for the surplus note interest payment. Approval was granted on December 21, 2018 (See Transactions and Agreements with Affiliates section).

7. The Company did not report its surplus notes in accordance with NAIC Annual Statement Instructions, which requires the utilization of a defined table to report surplus debenture characteristics in the Notes to Financial Statements. In addition, the Company did not disclose certain surplus note details in accordance with Statement of Statutory Accounting Principle (SSAP) No. 41R, paragraphs 17k and 17l.

The Company agreed to make the necessary corrections beginning with its 2018 Annual Statement filing (See Transactions and Agreements with Affiliates section).

8. The Company cedes liabilities to Southern Financial Life Insurance Company and takes a liability reduction in the form of a reserve credit. As of the examination date, the reserve credit taken for policies ceded to this reinsurer was greater than the value of trust account assets; therefore, the Company was not in compliance with § 31A-17-404.1(1).

During the examination fieldwork, the Company made sufficient assets deposit into the trust account which brought the Company into compliance with § 31A-17-404.1(1) as of September 30, 2018 (See REINSURANCE section).

9. Effective November 1, 2014, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with LJA Insurance Company, an offshore unauthorized reinsurer, in order to cede a certain block of deferred annuities.

The Company was not in compliance with Utah Admin. Code R590-173-3(7)(a) as the underlying assets withheld from the reinsurer were not either transferred or identified and legally segregated. Furthermore, it could not be determined whether those assets conform to the requirements of Utah Code § 31A-17-404.1.

During examination fieldwork, the Company entered into an Amended Coinsurance Agreement with LJA Insurance Company and a Reinsurance Trust Agreement with Zions Bancorporation as trustee. The terms of these agreements are in compliance with R590-173-3(7)(a). Assets deposited into the reinsurance trust account were in compliance with § 31A-17-404.1. For these reasons, an examination adjustment is not required (See REINSURANCE section).

10. The Company reported the fair value of some construction loans using the appraised 'prospective' amount but should have considered the percentage of completion in reporting fair value as required by SSAP No. 37, paragraph 19.

The Company agreed with the examination finding and will report fair value in accordance with SSAP No. 37 beginning with the 2018 Annual Statement and thereafter. An examination adjustment is not required.

11. The Company held various mortgage loans where the excess of the 80% loan-to-value was guaranteed by its affiliate, SecurityNational Mortgage Company. Therefore, the Company was not in compliance with Utah Code § 31A-18-106(2)(b)(i) which limits the amount of a loan secured by a mortgage or deed of trust to 80% of the value of the real estate interest mortgaged, unless the excess over 80% is insured or guaranteed by:
- (Aa) the United States;
 - (Bb) a state of the United States;
 - (Cc) an instrumentality, agency, or political subdivision of the United States or a state; or
 - (Dd) a combination of entities described above.

The Company agreed with the examination finding and will no longer accept a guarantee from SecurityNational Mortgage Company for mortgage loans in excess of 80% loan-to-value. All mortgage loans guaranteed by SecurityNational Mortgage Company currently held by the Company will be removed from asset holdings by June 30, 2019.

12. The Company held a material construction loan where an affiliated insurer was a participant. The construction loan was for a two phase development. Phase 1 was appraised but, at the time of closing, there was no appraised value for Phase 2. The Company incorrectly applied the Phase 1 appraisal value per lot to the Phase 2 lots in order to determine total fair value. The Company received an appraisal of Phase 2 on

January 3, 2018. Therefore, the Company did not report fair value of this construction loan in accordance with NAIC Annual Statement Instructions.

Additionally, the Company reported this participating construction loan at full fair value, not the appraised pro rata value related to Company interest in the mortgage loan in accordance with NAIC Annual Statement Instructions.

The Company agreed with the examination finding and will report the fair value of all participatory mortgage loans on a pro rata basis beginning with the 2018 Annual Statement and thereafter. An examination adjustment is not required.

Status of Prior Exam Findings

The prior examination covered the period of January 1, 2009 through December 31, 2013. There are no outstanding issues from the prior examination that have not been corrected by the Company.

COMPANY HISTORY

General

The Company was organized on January 31, 1967, as Tower Life and Accident Insurance Company, an Illinois corporation. The Company changed its domicile to Florida on August 29, 1989, merged with its insurance subsidiary, Capital Investors Life Insurance Company, on January 1, 1990, and changed its domicile to Utah on December 29, 1994.

The Company became part of the Security National Financial Corporation (SNFC) holding company system in December 1994 when it was acquired from Suncoast Financial Corporation.

In December 1995, the Company merged with Security National Life Insurance Company, a Utah domiciled insurer, and Civil Service Employees Life Insurance Company, a California domiciled insurer, with the Company being the surviving corporation. In March 1996, the Department approved Articles of Amendment to Articles of Re-domestication to change the Company's name to Security National Life Insurance Company.

There were no amendments to the Articles of Incorporation or bylaws of the Company during the examination period. The Articles of Incorporation authorize the issuance of 50,000 shares of common stock at a par value of \$170.00 per share. As of December 31, 2017, the Company had 15,000 shares of common stock issued and outstanding. All outstanding shares are owned by SNFC.

The primary business of the Company is the sale of selected lines of life insurance and annuity products through a commissioned sales force of licensed insurance agents. The majority of business is conducted in the states of Mississippi, Texas, and Utah. In total, the Company is licensed to conduct business in 38 states.

Dividends and Capital Contributions

Policyholder dividends during the examination period were as follows:

2014	2015	2016	2017
\$291,680	\$406,516	\$413,782	\$409,826

No stockholder dividends were declared or paid during the period under examination.

On July 11, 2016, the Company issued a \$2,904,354 surplus note to its parent, SNFC, to increase surplus and enable continued expansion and operation of its business activities due to the acquisition of First Guaranty Insurance Company.

On December 28, 2017, the Company received a \$500,000 capital contribution from SNFC. This contribution was accounted for as unassigned surplus.

On December 29, 2017, the Company received a \$1,000,000 common stock dividend from its affiliate, First Guaranty Insurance Company.

Mergers and Acquisitions

On July 11, 2016, SNFC, through the Company, completed a Stock Purchase Agreement with Reppond Holding Corporation (Reppond), sole shareholder of First Guaranty Insurance Company (First Guaranty), to purchase all outstanding shares of Reppond common stock. The agreement was effective February 17, 2016 and was amended twice in March 2016. The first amendment, effective March 5, 2016, assigned all rights and obligations of SNFC to the Company. The Company paid \$6,753,000 to Reppond shareholders, resulting in goodwill of approximately \$3,172,000. As of December 31, 2017, the goodwill balance for this transaction was \$2,519,546.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

The bylaws of the Company indicate that the Board shall not be less than three (3) directors. The following persons served as directors for the Company as of December 31, 2017:

Name and Location	Title and Principal Occupation
Scott M. Quist Sandy, UT	Chairman of the Board, Chief Executive Officer, and President Security National Financial Corporation
John L. Cook Sandy, UT	Co-Owner and Operator Cook Brothers Painting, Inc.
Gilbert A. Fuller Sandy, UT	Retired- Executive Vice President, Chief Financial Officer, and Secretary USANA Health Sciences, Inc.
Robert G. Hunter, M.D. Sandy, UT	Head of Otolaryngology, Head and Neck Surgery Department Intermountain Medical Center
H. Craig. Moody Sandy, UT	Owner Moody & Associates
Norman G. Wilbur Mead, CO	Retired- Manager of Planning and Reporting JC Penny's Stores
Jason G. Overbaugh Draper, UT	Vice President and Assistant Secretary Security National Financial Corporation
S. Andrew Quist Draper, UT	Associate General Counsel and Vice President Security National Financial Corporation

Committees

The Company's bylaws require that an Audit Committee be organized, and provide guidance for other operational committees. Each committee shall consist of three (3) or more directors.

Committees and the respective committee members of December 31, 2017 were as follows:

Executive Committee	Audit Committee
Scott M. Quist	Norman G. Wilbur
Howard C. Moody	John L. Cook
Gilbert A. Fuller	Gilbert A. Fuller
S. Andrew Quist	Howard C. Moody

Compensation Committee	Nomination and Corporate Governance Committee
Norman G. Wilbur	Howard C. Moody
John L. Cook	John L. Cook
Gilbert A. Fuller	Gilbert A. Fuller
Robert G. Hunter, M.D.	Norman G. Wilbur
Howard C. Moody	Robert G. Hunter, M.D.

Officers

The Company's bylaws provide for officers to consist of a President, one or more Vice Presidents, a Secretary and a Treasurer, each of whom shall be elected by the Board of Directors.

The principal officers of the Company shall be the President, Secretary, and Treasurer. The officers of the Company as of December 31, 2017 were as follows:

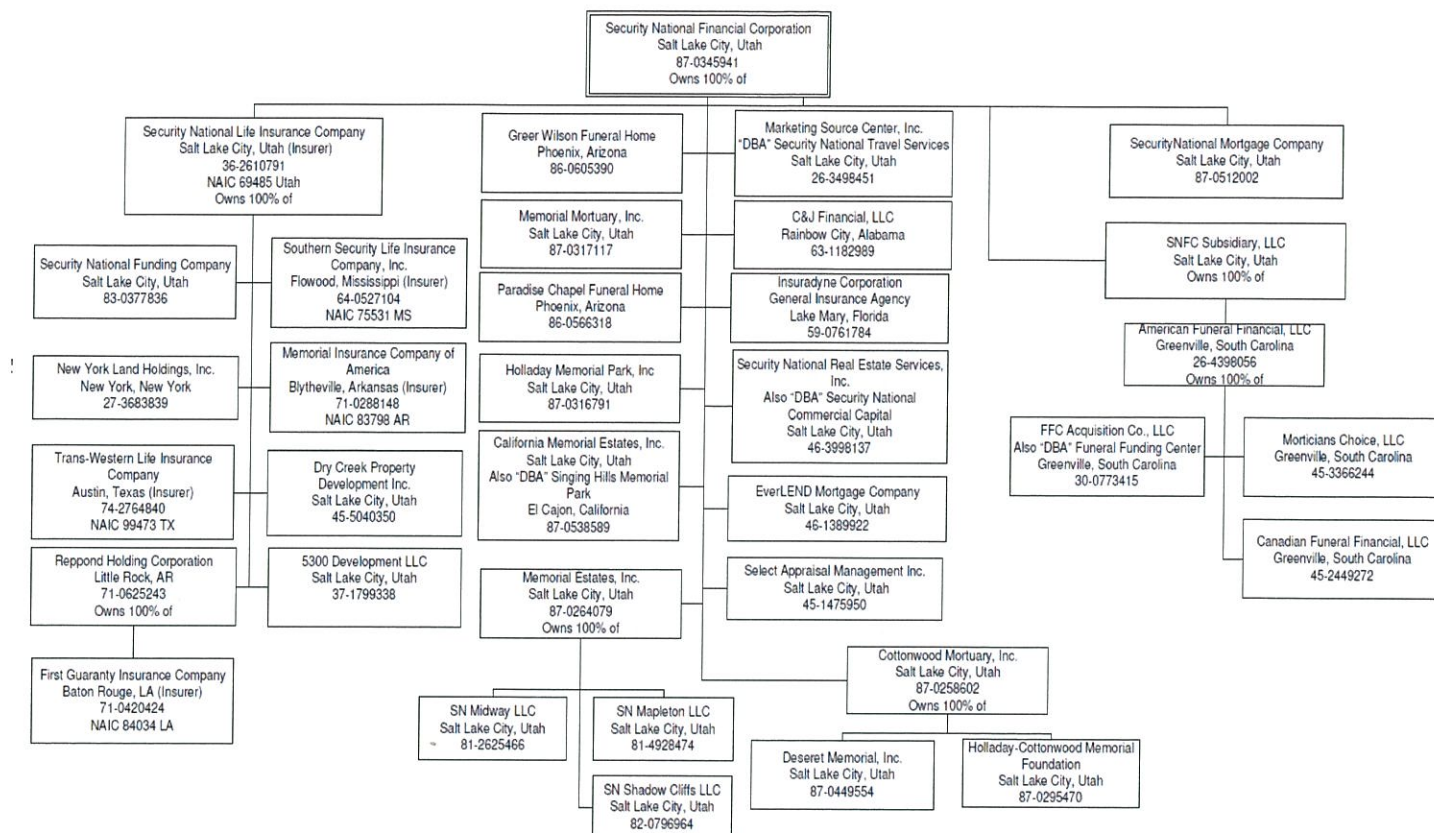
Name	Title
Scott M. Quist	President, Chief Executive Officer
Garrett S. Sill	Treasurer, Chief Financial Officer
Jeffrey R. Stephens	Secretary, General Counsel
Joshua M. Keddington	Vice President
Diana C. Olson	Vice President
Christie Q. Overbaugh	Vice President
Jason G. Overbaugh	Vice President
Adam G. Quist	Vice President
S. Andrew Quist	Vice President
Jason R. Richardson	Vice President
Aaron D. Searle	Vice President
Stephen W. Turner	Vice President
John W. Van Valkenburg	Vice President
Guy V. Winstead	Vice President

Holding Company

The Company is a member of a holding company as defined in Utah Code § 31A-16 and is a wholly-owned subsidiary of SNFC, a Utah corporation registered with the Securities and Exchange Commission. SNFC operates in three main segments: life insurance, cemetery and mortuary, and mortgage loans. SNFC is owned by individual shareholders with the following related parties owning more than 10% of outstanding common stock:

- George R. and Shirley C. Quist Family Partnership, Ltd. – 13.6%
- Scott M. Quist – 11.3%

The following organizational chart depicts the holding company as of December 31, 2017:



Transactions and Agreements with Affiliates

The following are the most significant affiliate agreements and transactions in place as of the examination date:

Amended Loan Funding and Fee Agreement with Security National Mortgage Company (SNMC)

On August 2, 1993, the Company entered into a Loan Funding and Fee Agreement with SNMC. Under the terms of the agreement, residential mortgage loans originated by SNMC are assigned to the Company, and the Company funds the loans and becomes the loan owner. The Company holds the loans as short-term investments until it receives the proceeds from third party investors. As of December 31, 2017, the Company had outstanding loan purchases of \$35,709,293, and interest income included in investment income of \$4,048,924.

The agreement has been amended seven times, five occurring during the examination period. The amendment, effective May 25, 2016, replaced the prior version of the agreement in its entirety. The most recent amendment took place on March 26, 2018. The Company did not timely notify the commissioner of its intention to amend this agreement in accordance with § 31A-16-106(1)(b)(i)(B).

During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with SNMC. This Form D was approved by the Department on June 22, 2018.

Loan Funding and Fee Agreement with C&J Financial LLC (C&J)

On July 16, 2007, the Company entered into a Loan Funding and Fee Agreement with C&J. C&J operates a factoring business of life insurance policies. Under the terms of the agreement, the Company purchases these insurance policies from C&J. C&J processes the insurance claims on behalf of the Company and receives a service fee. The amount invested in these contracts was \$15,822,045 at December 31, 2017. Fees for these contracts included in investment income were \$2,175,799 for the year ended December 31, 2017.

Real Estate Contracts with Memorial Estates, Inc. (Memorial Estates)

During 2009 the Company entered into Real Estate Contracts with Memorial Estates, wherein certain residential properties owned by the Company were sold to Memorial Estates at the Company's book value on the date of sale. The Company notified the commissioner of its intention to enter into this agreement in accordance with § 31A-16-106(1)(b)(i)(B). This Form D, Prior Notice of a Transaction, was approved by the Department on March 23, 2009. Pursuant to the terms of the original agreement, unpaid principal and interest must be paid on or before the earlier of the date that Memorial Estates sells the property or March 27, 2016, the seventh anniversary date of the agreement. However, the amount outstanding from Memorial Estates was \$22,930,037 as of December 31, 2017.

The agreement was amended during the examination period to extend the payment due date to March 2021; however, the Company did not notify the commissioner of its intention to amend this agreement in accordance with § 31A-16-106(1)(b)(i)(B). During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its amended agreement with Memorial Estates.

Recapture of Trans-Western Life Insurance Company Policies (Trans-Western)

On February 13, 2014, in accordance with the terms of the Coinsurance Agreement, the Company recaptured additional policies of its wholly-owned subsidiary, Trans-Western, from North America Life Insurance Company (North America Life). Pursuant to the Coinsurance Agreement, North America Life paid the Company \$4,684,395, less a ceding commission of \$57,393. All policies of Trans-Western have been recaptured and the reinsurance agreement between Trans-Western and North America Life has been terminated. The amount of assumed policies was \$20,258,334 as of December 31, 2017.

Loan Funding and Fee Agreement with American Funeral Financial, LLC (American Funeral)

On June 4, 2014, the Company entered into a Loan Funding and Fee Agreement with American Funeral. American Funeral operates a factoring business of life insurance policies. Under the terms of the agreement, the Company purchases these factored life insurance policies from American Funeral. American Funeral processes the insurance claims on behalf of the Company and receives a service fee. The amount invested in these contracts was \$18,744,543 at December 31, 2017. Included in investment income was \$2,584,550 for the year ended December 31, 2017.

The Company did not timely notify the commissioner of its intention to enter into this agreement in accordance with § 31A-16-106(1)(b)(i)(B). During examination fieldwork, the Company submitted a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with American Funeral. This Form D was approved by the Department on February 4, 2019.

Services and Cost Sharing Agreement with Affiliates

On March 1, 2015, the Company entered into a Services and Cost Sharing Agreement with a few of its affiliates. Under the terms of the agreement, the Company provides personnel services and office space to those certain affiliates.

The Company amended the agreement twice during the examination period to include newly acquired companies but did not timely notify the commissioner of its intention to enter into this agreement in accordance with § 31A-16-106(1)(b)(i)(B).

During examination fieldwork, the Company filed a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with certain affiliates. This Form D was approved by the Department on February 4, 2019.

Loan Servicing Agreement with SNMC

On November 1, 2016, the Company entered into a Loan Servicing Agreement with SNMC. Under the terms of the agreement, SNMC receives a fee in exchange for servicing long-term mortgage loans of the Company. The annual servicing fee, payable monthly, is calculated as follows: 25 basis points for residential mortgage loans; 50 basis points for commercial mortgage loans; and 15 basis points for other mortgage loans.

The Company did not timely notify the commissioner of its intention to enter into this agreement in accordance with § 31A-16-106(1)(b)(iv). In addition, this agreement was not disclosed in the Notes to Financial Statements of subsequent Annual Statement filings in accordance with 2017 NAIC Annual Statement Instructions.

During examination fieldwork, the Company filed a Form D, Prior Notice of a Transaction, notifying the commissioner of its agreement with SNMC. This Form D was approved by the Department on May 29, 2018.

Capital Contribution Agreement with SNFC

On December 28, 2017, the Company entered into a Capital Contribution Agreement with SNFC in the amount of \$500,000 in order to increase the surplus of the Company and cause the risk-based capital ratio to be no less than 3.5 as of December 31, 2017. The agreement calls for additional contributions in the future as required by the Company.

Surplus Notes

The Company has six surplus debentures, or surplus notes, totaling \$16,988,562, all of which are held by affiliates without a maturity date. The surplus debentures are as follows:

- Issued on January 30, 1989, a \$2,000,000 debenture, owned by SNFC. The interest rate is bank prime plus 1%. The Company paid \$102,000 in interest during 2017.
- Issued on December 31, 2000, a \$1,000,000 debenture, owned by SNFC. The interest rate is bank prime plus 2.5% with a minimum and maximum rate of 9% and 11%, respectively. The Company paid \$90,000 in interest during 2017.
- Issued on December 31, 2003, a \$2,400,000 debenture, owned by SNMC. The interest rate is bank prime plus 1%. The Company paid \$122,000 in interest during 2017.
- Issued December 20, 2008, a \$4,000,000 debenture, owned by Holladay Cottonwood Memorial Foundation, Inc. (Holladay CMF). The interest rate is bank prime plus 4% with a minimum and maximum rate of 6% and 8.5%, respectively. The Company paid \$323,000 in interest during 2017.
- Issued December 19, 2012, a \$4,684,208 debenture, owned by SNFC. The interest rate is 4.85% per annum. The Company paid \$228,000 in interest during 2017.
- Issued July 11, 2016, a \$2,904,354 debenture, owned by SNFC. The interest rate is 4.85% per annum. The Company paid \$141,000 in interest during 2017.

One of the surplus note interest payments made to Holladay CMF during 2017 was not submitted to the commissioner for approval in accordance with § 31A-5-305(2)(d). During examination fieldwork, the Company submitted a request for approval of this interest payment which was granted by the Department on December 21, 2018.

In addition, the Company did not report surplus notes in accordance with 2017 NAIC Annual Statement Instructions which requires the utilization of a defined table to report surplus debenture characteristics in the Notes to Financial Statements. The Company also did not include certain surplus note details pursuant to SSAP No. 41R, paragraphs 17k and 17l.

TERRITORY AND PLAN OF OPERATION

The Company was licensed and authorized to transact life, accident, and health insurance in the following 38 states as of December 31, 2017:

Alabama	Hawaii	Minnesota	South Carolina
Alaska	Idaho	Mississippi	South Dakota
Arizona	Illinois	Missouri	Tennessee
Arkansas	Indiana	Montana	Texas
California	Iowa	Nebraska	Utah
Colorado	Kansas	Nevada	Virginia
Delaware	Kentucky	New Mexico	Wisconsin
District of Columbia	Louisiana	North Dakota	Wyoming
Florida	Maryland	Oklahoma	
Georgia	Michigan	Oregon	

A significant portion of policies written by the Company are marketed as a means to fund funeral and internment related costs. The Company primarily writes preneed and final expense life insurance, whole life insurance, single premium deferred annuities, and flexible premium deferred annuities and immediate annuities.

REINSURANCE

Assumed

The Company enters into assumption reinsurance transactions predominantly in conjunction with its growth strategy, and merger and acquisition activity. The total amount of assumed insurance in force was \$208,053,337 as of December 31, 2017.

On February 11, 2015, the Company entered into a Coinsurance Agreement, effective January 1, 2015, to reinsure certain life insurance policies from American Republic Insurance Company (American Republic), an Iowa domiciled insurance company. American Republic transferred all contractual obligations and risks to the Company and the Company took control of \$15,004,771 of trust account assets held by Texas Capital Bank as the trustee.

Ceded

The Company policy is to retain no more than \$100,000 of ordinary insurance per insured life, with the excess risk being reinsured. The total amount of ceded insurance in force was \$55,023,456 as of December 31, 2017. Following are significant agreements in place as of December 31, 2017:

Southern Financial Life Insurance Company (Southern Financial)

The Company entered into a Reinsurance Agreement with Southern Financial, an unauthorized reinsurance company domiciled in Louisiana, and a Reinsurance Trust Agreement with Southern Financial and JPMorgan Chase Bank as trustee, prior to the examination period. The Trust Agreement was amended and replaced in its entirety on October 4, 2016.

As of December 31, 2017, the Company was not in compliance with § 31A-17-404.1(1) which requires the reserve credit taken by the ceding entity to be no greater than the liabilities it carries and equal to the amount of funds held in trust for that ceding insurer.

During examination fieldwork, sufficient assets were deposited into the trust account, which brought the Company into compliance with § 31A-17-404.1(1) as of September 30, 2018.

LJA Insurance Company (LJA Insurance)

On December 19, 2014, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with LJA Insurance, an unauthorized reinsurance company domiciled in the Republic of the Marshall Islands, effective November 1, 2014. The Company ceded to LJA Insurance three blocks of deferred annuities in the amount of \$4,343,000, retained the assets, and recorded a funds held under coinsurance liability for the same amount. LJA Insurance paid the Company an initial ceding commission of \$60,000 and agreed to pay a quarterly asset management fee of \$16,000 to administer the policies. The Company also receives a 90% experience refund for any profits from the business and has the right to recapture by giving LJA Insurance ninety (90) days written notice.

The Company reported a \$4,196,358 reserve credit for the liabilities ceded to LJA Insurance as of December 31, 2017. However, the Company did not transfer to the reinsurer or legally segregate and identify the underlying assets of the funds withheld in accordance with R590-173-3(7)(a).

During examination fieldwork, the Company entered into an Amended Coinsurance Agreement with LJA Insurance Company and a Reinsurance Trust Agreement with Zions Bancorporation as trustee. The terms of these agreements are in compliance with R590-173-3(7)(a). Assets deposited into the reinsurance trust account were in compliance with § 31A-17-404.1.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2017. The accompanying COMMENTS ON FINANCIAL STATEMENTS (if any) reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

SECURITY NATIONAL LIFE INSURANCE COMPANY
BALANCE SHEET

as of December 31, 2017

ASSETS

	Net Admitted Assets
Bonds	\$ 174,003,486
Preferred stocks	623,635
Common stocks	22,601,854
Mortgage loans on real estate	208,177,459
Properties occupied by the company	1,875,492
Properties held for the production of income	42,189,641
Properties held for sale	2,261,642
Cash, cash equivalents and short-term investments	101,747,550
Contract loans	6,330,488
Other invested assets	3,779,512
Receivables for securities	13,750
Investment income due and accrued	3,824,527
Uncollected premiums and agents' balances in the course of collection	411,866
Deferred premiums and agents' balances booked deferred and not yet due	12,163,188
Other amounts receivable under reinsurance contracts	75,363
Net deferred tax asset	1,644,217
Electronic data processing equipment and software	238,155
Receivables from parent, subsidiaries and affiliates	2,080,277
Aggregate write-ins for other than invested assets	616,114
Total Assets	<u>\$ 584,658,216</u>

SECURITY NATIONAL LIFE INSURANCE COMPANY
BALANCE SHEET

as of December 31, 2017

LIABILITIES, SURPLUS AND OTHER FUNDS

	<u>Current Year</u>
Aggregate reserve for life contracts	\$ 510,739,643
Aggregate reserve for accident and health contracts	423,914
Liability for deposit-type contracts	3,735,250
Contract claims: life	7,182,772
Contract claims: accident and health	19,176
Dividends not yet apportioned	66,148
Premiums and annuity considerations received in advance	650,295
Interest maintenance reserve (IMR)	467,141
General expenses due or accrued	2,512,443
Taxes, licenses and fees due or accrued, excluding federal income taxes	836,587
Current federal and foreign income taxes	1,133,262
Unearned investment income	218,980
Amounts withheld or retained by company as agent or trustee	1,173,687
Amounts held for agents' account	279,395
Remittances and items not allocated	1,015,711
Asset valuation reserve (AVR)	10,773,782
Payable to parent, subsidiaries and affiliates	2,293,741
Funds held under coinsurance	4,196,964
Derivatives	85,257
Aggregate write-ins for liabilities	572,583
Total Liabilities	<u>\$ 548,376,731</u>
Common capital stock	2,550,000
Surplus notes	16,988,562
Gross paid in and contributed surplus	10,562,810
Unassigned funds (surplus)	6,180,113
Total Capital & Surplus	<u>36,281,485</u>
Total Liabilities, Surplus and Other Funds	<u><u>\$ 584,658,216</u></u>

SECURITY NATIONAL LIFE INSURANCE COMPANY
SUMMARY OF OPERATIONS

for the Year Ended December 31, 2017

	Current Year
Premiums and annuity considerations	\$ 81,290,298
Net investment income	27,058,792
Amortization of interest maintenance reserve (IMR)	188,761
Commissions and expense allowances on reinsurance ceded	139,017
Aggregate write-ins for miscellaneous income	415,727
Total income	<u>\$ 109,092,596</u>
Death benefits	\$ 32,019,788
Matured endowments	95,049
Annuity benefits	9,736,366
Disability benefits and benefits under accident and health contracts	75,070
Coupons, guaranteed annual pure endowments and similar benefits	208
Surrender benefits and withdrawals for life contracts	4,355,836
Interest and adjustments on contract or deposit-type contract funds	139,268
Increase in aggregate reserves for life and accident and health contracts	18,004,326
Total benefits and reserves	<u>\$ 64,425,911</u>
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	\$ 20,382,188
Commissions and expense allowances on reinsurance assumed	157,297
General insurance expenses	17,945,363
Insurance taxes, licenses and fees, excluding federal income taxes	2,802,448
Increase in loading on deferred and uncollected premiums	1,127,742
Total expenses	<u>42,415,038</u>
Total expenses, benefits and reserves	<u>\$ 106,840,949</u>
Net gain before dividends to policyholders and federal income taxes	\$ 2,251,646
Dividends to policyholders	409,826
Net gain after dividends to policyholders, before federal income taxes	1,841,820
Federal and foreign income taxes incurred	1,497,953
Net gain after dividends and taxes, before realized capital gains (losses)	343,867
Net realized capital gains (losses)	(3,369,483)
Net income (loss)	<u>\$ (3,025,616)</u>

SECURITY NATIONAL LIFE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS

2014 through 2017

	2014*	2015*	2016*	2017*
Capital and surplus, December 31, prior year	\$ 29,597,289	\$ 34,356,157	\$ 32,771,067	\$ 36,789,358
Net income	5,137,208	3,478,339	2,601,409	(3,025,616)
Change in net unrealized capital gains (losses)	(208,173)	(1,207,696)	157,997	952,908
Change in net deferred income tax	(343,705)	(251,172)	(589,100)	(1,689,546)
Change in nonadmitted assets	251,641	(1,916,779)	274,589	1,468,800
Change in asset valuation reserve	(78,102)	(1,687,783)	(1,330,958)	1,285,580
Change in surplus notes	-	-	2,904,354	-
Surplus adjustment: Paid in	-	-	-	500,000
Net change in capital and surplus for the year	4,758,869	(1,585,090)	4,018,291	(507,873)
Capital and surplus, December 31, current year	\$ 34,356,157	\$ 32,771,067	\$ 36,789,358	\$ 36,281,485

* Per the regulatory financial statements filed with the Utah Insurance Department.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

There were no adjustments made to surplus as a result of the examination.

COMMENTS ON FINANCIAL STATEMENTS

The Company's capital and surplus in the amount of \$36,281,485 was determined to be the same as reported in the annual statement as of December 31, 2017.

The Company's minimum capital requirement was \$400,000 as defined in Utah Code § 31A-5-211(2)(a). As defined by Utah Code § 31A-17 Part 6, the Company had total adjusted capital of \$47,639,541 which exceeded the authorized control level risk-based capital requirement of \$12,539,196.

SUBSEQUENT EVENTS

The following material subsequent events were identified during the examination:

- On February 12, 2018, the Company entered into an Agreement and Plan of Reorganization with Dry Creek at East Village apartments (Dry Creek), a wholly owned subsidiary. Dry Creek transferred all of its assets and liabilities to the Company and the Company transferred a stock certificate to Dry Creek representing all issued and outstanding shares of Dry Creek common stock. Dry Creek agreed to take all steps necessary to voluntarily wind up its affairs and thereafter liquidate and dissolve itself in accordance with Utah law.

The Company completed the sale of Dry Creek on March 28, 2018 for a purchase price of \$57,000,000. The sale resulted in a realized capital gain of \$22,252,078.

- In June 2018, the Company recaptured policies from American Life & Security Corporation, an authorized Arizona-domiciled insurer. As of December 31, 2017, there was \$2,150,444 of insurance in-force.

ACKNOWLEDGEMENT

T. Michael Presley, FSA, MAAA, of Risk & Regulatory Consulting, LLC, performed the actuarial review of the examination. Aaron Phillips, CFE, CISA, of Thomas Consulting, LLC, performed the information systems review. Scott Eady, CPA, CFE, of Risk & Regulatory Consulting, LLC, representative of the Mississippi Insurance Department, performed the investment and related party analyses portions of the examination. Jake Garn, CPA, CFE, Chief Financial Examiner, Utah Insurance Department, supervised the examination. In addition, Natasha Robinson, AFE, , and Mike Porter, AFE, Financial Examiners of Utah Insurance Department, participated in the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Malis Rasmussen', with a long horizontal flourish extending to the right.

Malis Rasmussen, MSA, CFE, SPIR
Deputy Chief Examiner
Examiner-in-Charge
Utah Insurance Department